

## INDUSTRY, SCIENCE AND TECHNOLOGY CANADA

### AEROSPACE

Characteristically, the industry is niche market oriented and heavily reliant on access to export markets. Over 70 percent of the sector's output is exported, primarily to the United States. The sector's markets include transport and general aviation aircraft manufacturers, airlines, major civil aerospace and defence contractors, military end-users and governments. The relatively limited demand in the Canadian market for aerospace and defence goods and services has led the sector to its present strong export orientation. In particular, the defence-related elements of the sector have close ties to the major defence contractors in the United States. Recently, several Canadian firms have established supplier relationships to the European Airbus consortium; as a result, the current U.S. share of Canadian exports (approximately 62 percent) is expected to decline slightly.

In general, the Canadian aerospace sector has been relatively competitive on international markets over the last two decades. The U.S. export share of the Canadian market, on the other hand, declined by 34 percent during the same period.

Aerospace is one of the most R&D-intensive industry sectors in the world. The Canadian industry traditionally invests about 10 percent of total sales in R&D. Though the level is high relative to other Canadian manufacturing industry sectors, it has always been less than that of the United States, France and the United Kingdom aerospace industries. The comparable U.S. figure is 17.5 percent while the OECD average is 16 percent. These nations have large defence requirements that generate the higher level of their industry's R&D activity. Canadian R&D expenditures tend to be driven by international civil market opportunities.

### SECTOR STRATEGY

The Canadian government has supported the maintenance of research and development capabilities in the aerospace and defence sector through the Defence Industry Productivity Program (DIPP). Firms themselves have responded, investing heavily in product research and in new production equipment and facilities. ISTC direct support accounted for approximately 13 percent of funding for new investments in 1991.

Free access to international markets is critical to the long-term viability of the Canadian aerospace sector. This access has generally been facilitated by trade agreements and other bilateral trade arrangements. For instance, most of the Canadian aeronautic sector's products are traded on an essentially tariff free market environment protected by the GATT that limits tariff and non-tariff barriers on civil aircraft products. In addition, special bilateral defence arrangements (DDSA/DPSA) allow relaxation of tariff barriers on trade in defence products. In spite of these bilateral arrangements, there are still a